

Financial Strategic Plan



Financial Strategic Plan

I. Background

The Financial Strategic Plan (Plan) is the City's long-range budget planning tool to project fluctuations in structural revenue and expense in the General Fund and ensure that the City maintains a structural balance in the General Fund. Utilized to eliminate a projected structural deficit between the fiscal years 2004 – 2007, which was accomplished with the adoption of the FY 07 Budget, the Plan has now evolved to an ongoing long-term fiscal planning tool. With a continual three-year revenue and expense projection, the Plan allows for increased accuracy in projections based upon more concrete operational and financial assumptions. The Plan, as has been the case since its inception, will be updated each year to reassess the condition of the General Fund, address changes in the financial and service delivery environment, and to make appropriate adjustments to ensure it reflects the City Council's priorities and input from the community. This section of the budget book is designed to provide a brief synopsis of the Plan's history, detailed information on the Plan's proposed direction for the Fiscal Year 2008 (FY 08) and an outlook for the subsequent two fiscal years.

II. Development of the Financial Strategic Plan

In September 2002, the Mayor and City Council directed City Staff to create a Plan to address the City's burgeoning structural deficit in the General Fund, which was projected to reach approximately \$102 million if the City took no action. The Plan would eliminate the City's reliance on one-time revenues to balance its budget by rationally and responsibly (although much sacrifice would be required) bringing ongoing spending in line with ongoing revenues and restore structural balance to the General Fund budget. Seeking a reasoned approach within which the organization could make the necessary adjustments, the Mayor and City Council called for the development of the Plan to balance the budget.

The Plan was unveiled to the City Council on January 7, 2003. To ensure a broad base of support, the City Manager and his staff presented the proposed Plan to the City Council and held over 80 community meetings to brief community stakeholders on the Plan's approach to balancing the budget, discuss potential service and organizational impacts and to answer questions and collect input for the City Council's consideration. After two months of intense review, the City Council officially endorsed the Plan on March 25, 2003.

Each spring and summer since the Plan was endorsed, the City has maintained the tradition of transparency and inclusiveness by conducting extensive outreach while updating the Plan's assumptions and proposals. Please see **Section V** below for a more detailed discussion of the City's community outreach and participation strategy related to the Plan.

III. Plan Accomplishments FY 04 – FY 07

The City has undergone a sea change in its effort to eliminate the General Fund structural deficit over the past four years through both strategic cost and service reductions and revenue increases. Under City Council leadership, Plan solutions were adopted with the annual budget each fiscal year, implementing \$102 million in structural deficit solutions from FY 04 – FY 07. Hundreds of difficult decisions were made in attacking the structural deficit, including \$73.4 million in cost reductions, e.g., the removal of over 250 vehicles from the City's fleet, elimination of more than 400 City positions, a 35 percent reduction in books, media and electronic materials available to library customers, instituting employee contributions to the cost of health and retirement benefits, reduced service levels throughout the organization, deferred funding for facility maintenance in various departments and optimizing various City operations to save money including Code Enforcement and the Workers' Compensation program.

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With these and other cost reductions, exacerbated by an increased level of retirements and attrition of senior staff to other organizations, remaining employees were asked to “do more with less,” resulting in increased turnaround and response times for traditional customer service activities such as gas turn-ons/offers, tree trimming, street repair and facility maintenance. To avoid further service reductions, a total of \$28.6 million in annual revenue adjustments were made with increased return on assets and improved cost recovery through new and updated fees. **Table 1** below reflects the success of the Plan in addressing the structural deficit from FY 04 – FY 07.

Table 1: Impact on the Structural Deficit, FY 04 - FY 07

Beginning Projected General Fund Structural Deficit	\$102 million
Plan Year One: FY 04 Achieved Solutions	- \$41 million
Plan Year Two: FY 05 Achieved Solutions	- \$29 million
Plan Year Three: FY 06 Achieved Solutions	- \$22 million
Plan Year Four: FY 07 Adopted Solutions	- \$10 million
Total Structural Solutions: FY 04 – FY 07	\$102 million

Table 2 below summarizes the deficit reduction solutions, including a breakdown between cost reductions and revenue enhancements, developed during the four years since the Plan was first endorsed by the City Council.

Table 2: Summary of Financial Strategic Plan Solutions, FY 04 – FY 07

<i>(in millions)</i>	FY 04	FY 05	FY 06	FY 07
Structural Budget Gap	\$60	\$39	\$3	\$ -
Prior Year Deficit	-	19	29	10.0
Cost Reductions	28	22	16	7.4
Revenue Adjustments	13	7	6	2.6
Remaining Structural Deficit	\$19	\$29	\$10	\$ 0

As a testament to the significance of what has been accomplished to date, the City’s approach to long-range planning through the Plan has been highlighted as a best practice in a new book published by the Government Finance Officers’ Association (GFOA) entitled, *Long-Term Financial Planning*. According to the GFOA:

“The elements of revenue and expenditure projection, fiscal environment analysis, gap identification, gap-closing strategy development, and cooperation and communication between a wide-range of stakeholder groups, including elected officials, staff, and citizens, are all hallmarks of successful long-term financial planning. Long Beach’s story demonstrates the critical role that long-term financial planning can play in securing the financial position of a government. Long-term financial planning is not just a one-time event in response to crisis. Long Beach’s experience illustrates this point, too.”

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IV. Maintaining a Structural Balance: FY 08

In compliance with the City Council's Financial Policy on achieving and maintaining a structurally balanced budget, the proposed FY 08 General Fund budget is without a structural budget deficit for the second year in a row. This accomplishment was made particularly challenging by the police officer compensation increases, already negotiated compensation increases for miscellaneous, firefighters and other employees as well as the \$2.1 million in non-discretionary increases in the cost of providing services. In addition, the softening of the local economy has led to less aggressive revenue projections, particularly for property and sales taxes. Coupled with cost increases, it was necessary to take some measured, proactive steps for the City Manager to provide the Mayor and City Council with a structurally balanced FY 08 Proposed Budget.

This balance was achieved through the collective effort of all City Manager departments to align resources closely with the City Council's stated priorities. This required identifying areas for cost or service reductions in lower-priority programs, as well as enhancing existing and proposing new revenue streams. Specifically, three strategies were employed:

- 1) **Department Submitted Reduction Options** – Based upon community, City Council and department priorities, City Manager departments provided options for cost and/or service reductions for FY 08. These options were then considered along with other budget requests to address emerging issues or enhance programs and services in key program areas.
- 2) **Improved Cost Recovery Through Fees** – Departments once again reviewed key fees for services to ensure that fee levels reflect current and anticipated direct and indirect costs to provide the services. Staff brought forward proposed fee increases to ensure, where possible, 100 percent cost recovery, or to mitigate growth in existing subsidies for services, again in accordance with the City Council's Financial Policy on User Fees. For an illustrative list of proposed fee adjustments for FY 08, please see Attachment A to the City Manager's Budget Message at the beginning of the Budget Book.
- 3) **Continued Full Allocation of Costs for Services** – Departments with service contracts with outside agencies or other City departments ensured a high rate of cost recovery by increasing the terms of these agreements to reflect all current and anticipated direct costs to provide the services. It is still difficult to negotiate the inclusion of indirect costs in reimbursements through service agreements (or, in other words, to negotiate full cost recovery for services provided by the City). As a result, the General Fund continues to provide significant subsidies to the Long Beach Unified School District, Carmelitos, Long Beach Transit and the Long Beach Community College, among others, for requested police services.

The structural balance in the General Fund for FY 08 is tenuous at best, and the resultant budget still does not provide the resources for the level of service that staff would like to provide or the community needs and deserves. Furthermore, the structural balance is dependent on departments operating within their approved spending limits, which is a task that has proved to be difficult for all departments, and seemingly impossible for the Police Department with the steady growth in service levels, sworn staffing and compensation, and increasing operating expenses experienced over the past several years. These challenges make maintaining a Plan all the more critical going forward. Thus, the Plan as presented below is updated to incorporate FY 09 and FY 10 into its outlook.

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V. Positioning for the Future: FY 09 – FY 10

As part of the FY 08 budget development process, staff provided several briefings on the state of the Plan, which provides a continual three-year outlook on the City's recurring revenue sources and ongoing expenditure commitments. The Plan clearly highlights three pivotal issues that will have a long-standing impact on the City's ability to maintain a structural balance in its General Fund.

- First, the compensation increases given to sworn police personnel after the adoption of the FY 07 budget, as communicated earlier, have consumed any projected structural revenue growth for the next few years. This has limited the ability for the General Fund to respond to other existing or emerging service delivery issues.
- Second, there are several major cost commitments on the horizon totaling approximately \$34 million annually, including the police officers' compensation increase to the median of comparable agencies in FY 10, possible issues with police overtime reviewed by the City Auditor's Office, potential City Hall seismic repairs, post-retirement health care liabilities and upcoming negotiations with miscellaneous and other employee bargaining units. Beyond these commitments, the Mayor and City Council have voiced their desire for additional police officers and increased funding for streets, sidewalk and infrastructure.
- Third, and most critically, the revenue streams in the General Fund continue to fall short of the true needs for service delivery and physical investments throughout the City.

While the Plan projects structural balance in FY 08 assuming no new or additional investments, we cannot lose sight of the fact that the General Fund is currently staggering from the loss of \$43 million per year in Utility User Tax revenue (each percentage point of the 5 percent now generates \$8.6 million, up from \$6 million in 2000) and \$25 million per year from the State Property Tax takeaways. Combined with the lack of any appreciable discretionary revenue growth, and the \$34 million in future commitments, pressure continues to mount on the City without a significant change in how the General Fund is supported. A return to a structural imbalance is not recommended, as it would be a violation of the City Council's Financial Policies, a contradiction to the City Council's priority for a structurally balanced budget and a threat to the stable fiscal outlook the City currently enjoys from credit rating agencies.

Therefore, before the largest of these future liabilities impact the budget, the City must develop an approach to address these large cost increases. Two primary options exist: 1) Identify opportunities to significantly downsize the staffing and scope of the organization; or, more preferably, 2) Identify new ongoing revenue sources, coupled with continued optimization, so that sufficient dollars are available to make the investments needed to sustain the city's renaissance. If the City maintains the status quo approach to funding its ongoing investments and future liabilities, the structural deficit will return by FY 09 and will grow significantly in FY 10. The City however does not have readily available one-time resources available to sustain this structural imbalance; therefore further significant service reductions would be necessary at a time when service levels and investment increases, especially in the area of infrastructure, maintenance and workforce development have reached a critical juncture. **Table 3** below summarizes the structural budget projections for the General Fund from FY 08 – FY 10, showing the clear impacts of future expenditure commitments without additional revenue streams.

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Table 3: Proposed/Projected Financial Strategic Plan, FY 08 – FY 10

(In structural increments, in millions)				
<u>Fiscal Year</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	
Proposed/Projected Structural Revenue	\$385.2	\$393.5	\$404.2	
Includes:				
<i>Property Tax</i>		1.6	3.5	
<i>Sales Tax and In-Lieu Sales Tax (Backfill)</i>		1.6	1.6	
<i>Utility Users Tax</i>		.5	.8	
<i>Vehicle License Fees and In-Lieu VLF (Backfill)</i>		2.0	2.1	
Proposed/Projected Structural Expenditures	\$385.1	\$394.1	\$406.5	
Includes:				
<i>Negotiated POA Salary Increases (1)</i>		3.6	10.0	
<i>Loss of COPS UHP Grants</i>		1.0		
<i>10 percent New Discretionary Revenue Set Aside for Capital</i>		1.0	1.0	
Adopted/Estimated Structural Surplus/(Deficit)	\$.1	\$ (.6)	\$ (2.3)	
<u>Further Projected Potential Cost Increases on the Horizon</u>				
Estimated Annual Debt Service on City Hall Seismic Retrofit				\$6-15
Estimated Annual Set-aside to Fund GASB 16 and 45 Liabilities				\$3.0
Contractual and Other Uncontrollable Cost Increases				\$2.0
Fire and Misc. Employees Negotiations in FY 08/09 (cost per each 1% increase)				\$1.8
<i>(1) This only includes the negotiated Police salary increases in FY 09; other Bargaining Unit agreements expire in FY 07 and FY 08.</i>				

As shown in the notes to the table above, there are other additional likely costs that are not factored into the structural calculations, as they remain largely unknown.

With the specter of these potentially significant liabilities in our near future, the City must continue to take a fiscally prudent approach to the use of available General Fund resources, and begin to seriously consider additional revenue sources to support the levels of investment required to sustain the gains achieved over the past decade to redevelop and reinvigorate Long Beach as a progressive beach community. It is critical to keep in mind that what is more alarming about the chart above is not the costs projected to encumber and exceed our limited resources; rather it is the dearth of additional investments in the physical infrastructure and lack of investments in the quality of life programming. It is only through such investments that the City will finally be able to achieve equitable economic opportunities, sufficient public health for our children and seniors, adequate recreational and artistic avenues to promote positive interactions and civic pride, increased levels of education and employment skills, and cleaner, more vibrant neighborhoods, all of which lead ultimately to a sustainable level of community safety.

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VI. Continued Community Outreach and Participation

Community outreach has been a hallmark of the Financial Strategic Plan since its inception, as many of the difficult long-term budget trade-offs it comprises require the informed knowledge of, and participation from, the community. The ultimate solutions required to put Long Beach on sustainable fiscal footing while making the investments needed to support the City's myriad needs will require a comprehensive community solution, one in which ownership comes directly from the public itself, rather than through technical solutions from City Hall. Therefore, an ongoing dialogue with the community that requires direct outreach from City staff was once again maintained for the development of the FY 08 Proposed Budget.

Starting in January 2007, the City Council and the Budget Oversight Committee held several public meetings to discuss implementation of FY 07 Plan solutions and the development of the FY 08 Proposed Budget in detail. In April, May and June, City Manager and Financial Management staff visited over 50 neighborhood, commission and committee meetings as well, in an effort to disseminate information about the budget and generate community input on possible solutions. The Mayor and City Council will hold additional public budget workshops and hearings during August and September to discuss the Plan's impacts, make recommendations and adopt the FY 08 Budget before September 30, 2007.

This year, due to the May 1, 2007 Charter changes that accelerated the budget adoption process timeline, the fifth annual *Budget Summit: Community Voices and Budget Choices* workshop was not held during the development of the FY 08 Proposed Budget. Staff plans to resume this traditional opportunity to inform the community on proposed changes to the budget and departments' significant issues, strategic objectives and Programs as well as answer questions and solicit feedback during the FY 09 budget development process.